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CORPORATION FILE

GRAY DRUG STORES, INC.

(Formerly Weinberger Drug Stores, Inc.)

NOTICE OF ANNUAL AND SPECIAL MEETING OF SHAREHOLDERS INCLUDING PROXY STATEMENT

Notice is hereby given that the annual meeting of shareholders of Gray Drug Stores, Inc. will be held at the principal office of the Company, 2400 Superior Avenue, Cleveland, Ohio, on Tuesday, September 25, 1945, at 10:00 o'clock A.M., for the purpose of electing directors and transacting such other business as may properly be brought before the annual meeting. Such meeting will also be held as a special meeting to consider and act upon the following:

1. Amending the Company's Articles of Incorporation so as to (a) create a new class of 20,000 shares of authorized Convertible Preferred Stock, par value $50 each, carrying such dividend rate and having such other express terms and provisions as may be determined and adopted at the meeting, and (b) increase the authorized Common Stock, without par value, by 10,000 shares plus such number of shares as are required to be reserved for issuance upon conversion of such Convertible Preferred Stock;

2. Authorizing any and all other matters necessary or incidental to the foregoing, including, without limiting the generality of the foregoing, the adoption and filing of Amended Articles of Incorporation in addition to adopting amendments to the Articles of Incorporation; and

3. Any and all other matters which may properly be brought before the meeting.

Shareholders of record at the close of business on September 1, 1945 will be the only shareholders entitled to notice of and to vote at the meeting. Please fill in, execute and return promptly the enclosed proxy in the envelope enclosed for that purpose.

FINANCING PROGRAM

The proposed amendments to the Company's Articles of Incorporation (hereinafter called Articles) will create a new class of 20,000 shares of Convertible Preferred Stock, par value $50 a share, having terms and provisions substantially as outlined herein under "Description of Convertible Preferred Stock". The dividend rate has not been determined and will depend to a large extent upon market conditions existing at about the time that shareholders' action is taken, but the rate will not exceed $2.50 a share per annum. It is presently contemplated that the conversion period will be limited to ten years and that the conversion rate will be two shares of Common Stock for each share of Convertible Preferred Stock, although the rate finally fixed will depend largely upon such market conditions. The market price of the Common Stock on the Cleveland Stock Exchange during the past three months has ranged from $23 to $19 a share, the last reported sale (at the time of printing of this proxy statement) being at $19.75 a share. The Company has been discussing the sale of the proposed Convertible Preferred Stock with prospective underwriters, and while it is not feasible to determine the sale price to underwriters and the offering price to the public until shortly before the offering, it is expected that the Company will receive about $50 a share (less expenses) for the stock and that such stock will be offered by the underwriters to the public at a price which will result in an underwriting commission of not more than $2.00 a share.

It is contemplated that the net proceeds of the sale of the Convertible Preferred Stock, presently estimated at $1,000,000 (less expenses), will be used in part to retire the Company's promissory note in the amount of $570,000 to The Cleveland Trust Company. This note,

which carries interest at the rate of 2¾% per annum, and matures in equal monthly installments from December 9, 1945 to June 9, 1955, was issued to finance in part the Company's recent acquisition of all the outstanding capital stock of Widmann & Teah, Inc., a Pennsylvania corporation which operates, directly and through a wholly owned subsidiary, a chain of retail drug stores in the States of Pennsylvania and New York. The Company intends to use all or a portion of the balance of the proceeds for expansion, modernization and improvement of various existing stores and, as favorable opportunities arise, for the acquisition of additional retail drug stores or chains. To the extent that such proceeds are not used for these purposes they will be added to the Company's working capital, in which event they may be applied to the acquisition of inventories and for other general corporate purposes.

In addition to creating a new class of Convertible Preferred Stock, the proposed amendments to the Articles will increase the authorized Common Stock of the Company from 100,000 to probably 150,000 shares. The Company presently has 98,500 shares of Common Stock outstanding, having recently issued 8,500 shares as part of the purchase price of the capital stock of Widmann & Teah, Inc. Based on the expected conversion rate, 40,000 additional shares should be authorized and reserved initially for issuance upon conversion of the Convertible Preferred Stock. The proposed increase in authorized Common Stock would thus provide sufficient shares for initial conversion purposes and leave 11,500 authorized shares available to be issued for general corporate purposes. The Company has no definite plans at the present time for the issuance of these shares, but it is contemplated that additional shares may be issued in connection with the purchase of additional stores or store chains, and it is possible that the Board of Directors may at some future date authorize the issuance and sale of a limited number of shares to employees, including officers, of the Company, at a price which may be somewhat less than the market price of such shares at the time of issuance. Under the present Articles of the Company, shareholders have no preemptive right to purchase shares of the Company, whether part of the original authorized shares or any increase thereof.

The adoption of the above proposed amendments to the Company's Articles of Incorporation will require the affirmative vote of the holders of two-thirds of the 98,500 outstanding shares of the Common Stock of the Company.

DESCRIPTION OF CONVERTIBLE PREFERRED STOCK

While the Board of Directors believes it impracticable to determine or recommend the exact terms and provisions of the Convertible Preferred Stock at this time, the following outline briefly summarizes the more important features which at the present time the Board of Directors proposes to include in the terms and provisions of that stock to be submitted at the meeting:

Dividend rights:

The holders of Convertible Preferred Stock will be entitled to receive cumulative dividends at a rate to be determined at the meeting but not exceeding $2.50 a share per annum (payable quarterly), when and as declared by the Board of Directors, in preference to dividends upon the shares of any other class.

Limitations in any indentures or other agreements on the payment of dividends:

There will be no such limitations, except that the $570,000 note referred to above contains a provision limiting dividends (and other distributions to shareholders) to consolidated net earnings of the Company and its subsidiaries after June 30, 1944. Such note is to be retired as stated above, and the restriction will thereupon cease to be operative.

Voting rights:

The holders of Convertible Preferred Stock will not be entitled to vote or participate in meetings of shareholders except as outlined below. If the Company defaults in the payment

of six quarterly dividends thereon, whether or not earned or declared, such holders will, as a class, be entitled until no quarterly dividend is in default, to elect one-third of the members of the Company's Board of Directors. Such voting rights may not be exercised except at meetings of the shareholders for the election of directors at which at least 25% of the outstanding Convertible Preferred Stock is represented. If, in the event of defaults entitling the holders of shares of Convertible Preferred Stock to elect one-third of the directors, the annual meeting of shareholders is not held and directors elected, a special meeting of the shareholders for the purpose of electing directors may be called by the holders of record of at least 10% of these shares outstanding. The above voting rights upon default will not deprive holders of Convertible Preferred Stock of the exercise of any right which they may have by law, equity or statute to enforce any provision with respect to their shares.

Cumulative voting for the election of directors is permitted by the Company's Regulations with respect to shares having voting rights in such election.

Provision will be made requiring the affirmative vote or written consent of the holders of at least a majority of the shares of Convertible Preferred Stock to authorize certain types of action. It is contemplated that without such vote or consent the Company may not

(1) issue, guarantee or assume, or permit any subsidiary to issue, guarantee or assume, any funded debt (as defined) other than funded debt issued by a subsidiary to and thereafter owned by the Company or one or more other subsidiaries; provided, however, that without such vote or consent the Company or any subsidiary (a) may issue, guarantee or assume any such funded debt if after giving effect thereto the excess of the consolidated book value of all assets of the Company and its subsidiaries, except intangibles, over consolidated current liabilities (as defined) of the Company and its subsidiaries would be not less than 175% of the aggregate of the outstanding debt (other than current liabilities) issued, guaranteed or assumed by the Company and its subsidiaries, plus the aggregate involuntary liquidation price of the then outstanding Convertible Preferred Stock, shares of the Company ranking on a parity with or having priority over the Convertible Preferred Stock and shares of each consolidated subsidiary not owned by the Company or another subsidiary having priority over the Common shares of such subsidiary, and (b) may issue, guarantee or assume any funded debt as a part of the purchase price paid by the Company or subsidiary for property acquired (or if the proceeds of such excepted debt are used in such acquisition or if such debt is or the proceeds thereof are used solely in the retirement of any such debt) if the amount of debt so excepted does not exceed 75% of the purchase price paid for such property; or

(2) create or issue any shares having a parity with the shares of Convertible Preferred Stock, or increase the authorized number of these shares beyond 20,000; or

(3) sell all or substantially all of its property and assets to or become a party to a statutory consolidation with or statutory merger into any other corporation, on any basis other than one which provides for the payment to the holders of Convertible Preferred Stock of an amount equal to the redemption price then in effect as outlined in the first paragraph under "Redemption provisions"; or

(4) permit any subsidiary to issue any shares of stock having priority over the Common shares of such subsidiary as to dividends or liquidation rights, or to issue, guarantee or assume any funded debt, other than shares and debt issued to and thereafter owned by the Company or one or more other subsidiaries and other than debt referred to in subdivision (b) of paragraph (1) above.

It will be provided that so long as any Convertible Preferred Stock is outstanding the Company shall not, unless with the affirmative vote or written consent of the holders of at least two-thirds of the shares of Convertible Preferred Stock at the time outstanding (1)

amend, alter or repeal any of the express terms and provisions of the Convertible Preferred Stock in any material respect prejudicial to the holders thereof; or (2) create any class of shares having priority over the Convertible Preferred Stock.

Liquidation rights:

Upon dissolution, liquidation or winding up of the Company (hereinafter called "liquidation") holders of Convertible Preferred Stock will be entitled to receive before any distribution may be made to the holders of shares of any other class or classes of the Company, an amount which (i) if the liquidation is involuntary, is equal to $50 per share, plus accrued unpaid dividends, and (ii) if the liquidation is voluntary, is equal to the redemption price then in effect as outlined in the first paragraph under "Redemption provisions", plus accrued unpaid dividends; but they will not be entitled to further participation in any distribution.

Preemptive or other subscription rights:

The holders of Convertible Preferred Stock will have no preemptive right to purchase any shares or other securities of the Company.

Conversion rights:

The holders of Convertible Preferred Stock will be entitled for a period of probably ten years (but if such shares have been called for redemption during such period, then until and including but not after a designated time prior to the redemption date) to convert each share of such stock into fully paid and non-assessable shares of the Company's Common Stock at a rate to be determined at the meeting but which is presently expected to be two shares of Common Stock for each share of Convertible Preferred Stock. Shares of Convertible Preferred Stock surrendered for conversion must be cancelled and not again issued.

There will be provisions designed to protect the conversion privilege and to compensate for dilution. Thus, provisions will be made for adjustment of the basic conversion price upon the issuance of additional shares of Common Stock other than for certain specified purposes, although in no case will the adjusted conversion price exceed the basic conversion price. Appropriate protection will also be provided with respect to capital reorganization or reclassification of stock of the Company, or statutory consolidation or statutory merger of the Company, or sale of its property substantially as an entirety to another corporation.

The Company shall not issue fractional shares of its Common Stock in satisfaction of the conversion privilege but, in lieu thereof, may make a cash settlement or issue non-voting and non-dividend bearing scrip certificates. No adjustment is to be made, in event of conversion, for dividends accrued upon shares of Convertible Preferred Stock or for any dividends upon the Common Stock into which such shares are convertible.

Redemption provisions:

All or any part of the shares of Convertible Preferred Stock will be subject to redemption at any time upon not less than 30 days' notice. The redemption price has not yet been determined and will in large measure depend upon the public offering price. It is expected, however, that the initial redemption price will be the public offering price plus a premium of not more than $2.00, together with accrued unpaid dividends, and that such redemption premium will be reduced at stated intervals.

The Company will be required on or before the first day of the sixth month following the close of each fiscal year to use in the purchase or redemption of shares of Convertible Preferred Stock an amount equal to 10% of the consolidated net earnings (as defined) of the Company and its subsidiaries for the preceding fiscal year less all amounts which have been expended during such fiscal year or prior thereto in the purchase or redemption of such shares in excess of the amounts required to have been so expended to the extent that credit

for such excess has not theretofore been taken by the Company; but in no year will the Company be required to so use more than $30,000 less the deduction referred to above. The Convertible Preferred Stock will be subject to redemption for this purpose at a redemption price yet to be determined, but the premium included in such price will be less than the premium in effect with respect to redemption otherwise than for sinking fund purposes.

All shares redeemed by call, and all shares purchased pursuant to the above sinking fund requirements and for which sinking fund credit is taken, will be cancelled and not again issued.

Liability for further calls or assessments:

The Convertible Preferred Stock will be fully paid and non-assessable.

COMMON STOCK WITHOUT PAR VALUE

Dividend rights:

Under the Articles as proposed to be amended the Company will not be permitted to pay any dividend on, or make or permit any subsidiary to make any purchase of, Common Stock or other shares of the Company junior to the Convertible Preferred Stock, or permit any subsidiary to purchase any of its outstanding shares otherwise than in connection with the complete liquidation of such subsidiary, nor will the Company be permitted to distribute any of its assets to holders of junior shares, so long as (a) the Company shall be in default in paying or providing for the payment of all or any part of any quarterly dividend on the shares of Convertible Preferred Stock, whether or not earned or declared; or (b) the Company shall be in default in expending the required aggregate amount in the retirement of shares of Convertible Preferred Stock; or (c) the aggregate amount of such payments, purchases and distributions after June 30, 1945 would exceed, by $250,000 or more, the sum of (i) the consolidated net earnings (as defined) of the Company and its subsidiaries after June 30, 1945, after dividends on the Convertible Preferred Stock, whether or not paid, and (ii) $25 per share of Convertible Preferred Stock theretofore converted into Common Stock. The Common Stock is also subject to the limitation on dividends provided in the $570,000 note as outlined above. Subject to the above limitations, the holders of Common Stock will be entitled to receive such dividends out of the remaining surplus or net profits of the Company as the Board of Directors may declare.

Limitations in any indentures or other agreements on the payment of dividends:

The payment of dividends upon the Common Stock will be subject to the limitations mentioned in the next preceding paragraph. No other provision affecting the payment of dividends on the Common Stock will be contained in the Company's Articles, Regulations, any indenture or other agreement.

Voting rights:

The Company's Regulations provide that, except when votes are cumulated in the election of directors and except as otherwise may be provided in the Articles, every shareholder of record at the record date fixed for the determination of the shareholders entitled to vote shall be entitled, on each proposal submitted to the meeting, to one vote for each share standing in the shareholder's name at the record date so fixed on which no installment is overdue and unpaid. Cumulative voting for the election of directors is permitted by the Regulations. For statements relative to instances in which holders of Convertible Preferred Stock may exercise voting rights, see the sub-caption "Voting rights" herein with reference to that class.

Liquidation rights:

As stated under "Liquidation rights" with reference to the Convertible Preferred Stock, such stock will have prior liquidation rights over the Common Stock. See also the sub-caption "Dividend rights" herein for statements relative to restrictions on the right to make distributions upon or purchases of shares of Common Stock.

Preemptive rights:

The Articles provide that holders of Common Stock shall have no preemptive rights to purchase or have offered to them for purchase any shares of stock of the Company.

Subscription rights:

The governing instruments do not grant subscription rights to the holders of Common Stock.

Conversion rights:

The governing instruments do not grant conversion rights to the holders of Common Stock.

Redemption provisions applicable thereto:

No redemption provision with respect to the Common Stock is contained in any of the governing instruments.

Liability for further calls:

The share certificates representing the outstanding Common Stock of the Company state, and the share certificates to be issued to represent Common Stock of the Company will state, that the shares represented thereby are fully paid and non-assessable. Otherwise no provision is contained in the governing instruments with respect to liability for further calls.

Recent dividend payments:

During the last three fiscal years the Company has paid cash dividends on its Common Stock outstanding at the beginning of each such fiscal year as follows:

For fiscal year ended June 30,	Amount Per Share
1943	$ .50
1944	.75
1945	1.00

ELECTION OF DIRECTORS

At the present time it is intended that proxies which contain no instructions to the contrary will be voted in favor of fixing the number of directors at nine (9), and for the election or re-election of the following persons (hereinafter called "nominees") as directors of the Company: J. G. Gosling, Mortimer Jacobs, Thomas H. Jones, M. M. Neubauer, Adolph Weinberger and L. J. Wolf, who constitute the present Board of Directors; and C. W. Evans, Henry Gray and C. B. Merrill, who are proposed as new directors. Mr. Evans, who has been an employee of the Company since 1931, was elected Secretary of the Company in 1938 and a Vice President of the Company in June, 1944. Mr. Gray has been an employee of the Company since 1929 and a Vice President of the Company since August, 1941. Mr. Merrill has been President, a stockholder and a director of Merrill, Turben & Co., of Cleveland, Ohio (an underwriter and dealer in securities) since its incorporation in 1936.

Should any of the above named nominees for the office of director become unable or decline to serve as a director, it is intended that the persons appointed as proxies either will vote for the election of such other individual as the management may recommend in the place of such nominee or, in the absence of any such recommendation, will vote to fix the number of directors at a lesser number.

REMUNERATION PAID TO DIRECTORS, NOMINEES AND OFFICERS

The following table sets forth the remuneration paid by the Company and its subsidiaries during the fiscal year ended June 30, 1945, to or for the benefit of officers, directors and nominees of the Company:

Directors and other Nominees	Aggregate remuneration excluding pension fund payments listed in next column	Net payments by Company (and Superior Laboratories, Inc., a subsidiary) into Employees' Pension Fund for benefit of officers	Maximum annual benefits estimated to be payable under Employees' Pension Fund Plan after retirement, based on conpensation during such fiscal year and continuance of Plan until normal retirement age as defined therein
Directors			
J. G. Gosling	$ 200.00 (1)		
Mortimer Jacobs	7,325.00	$ 593.22	$1,333.00
Thomas H. Jones	275.00 (2)		
M. M. Neubauer	9,307.90	793.60	1,311.00
Joseph Spivack (3)	17,500.00	1,636.80	See note (3)
Adolph Weinberger	25,999.84	2,480.00	2,316.00
L. J. Wolf	275.00		
Other Nominees			
C. W. Evans	9,662.41	770.80	2,017.00
Henry Gray	8,749.96	744.59	1,663.00
C. B. Merrill (4)			
All officers and directors of the Company	84,110.11	7,429.07	9,716.00

(1) Mr. Gosling was until recently a partner of Mr. John Simonson, who was one of the real estate brokers acting in connection with the purchase by the Company of a ninety-nine year leasehold covering property located at the corner of Euclid Avenue and East 105th Street in Cleveland. The purchase, which was consummated during the last fiscal year, resulted in the payment of a commission in which the partnership had an interest of $2,500.

(2) The Company paid the sum of $30,790 to Jones, Day, Cockley & Reavis, in which firm Mr. Jones is a partner, for legal services rendered during the last fiscal year.

(3) Mr. Spivack resigned as a director and officer of the Company on July 31, 1945, pursuant to an arrangement under which he will continue to serve the Company in an advisory capacity at his present basic rate of salary ($16,500 a year) for a maximum period of 18 months from August 1, 1945. Payments made previously into the Employees' Pension Fund for Mr. Spivack's benefit have been applied to the purchase of a paid-up annuity in the amount of $322.56, payable after Mr. Spivack reaches normal retirement age as defined in the Pension Fund Plan.

(4) Mr. Merrill has had no past connection with the Company.

INFORMATION RELATING TO MANAGEMENT AND TO HOLDINGS OF THE COMPANY'S SECURITIES

The following table sets forth the principal occupation or employment of each present director and officer of the Company, the year in which each present director was first elected as such, and the number of shares of Common Stock of the Company owned beneficially by the present directors and officers of the Company and their associates as of July 31, 1945. Where ownership by associates is indicated, each associate of the respective person named is a member of that person's family.

Name	Principal Occupation or Employment	Year first Elected a Director	Shares of Common Stock owned Beneficially
J. G. Gosling	President, Retail Properties, Inc.	1938	None
One associate			300
Mortimer Jacobs	Sales Promotion Manager of Company	1931	1,099
One associate			115
Thomas H. Jones	Attorney—Member of Jones, Day, Cockley & Reavis	1930	None
Three associates			2,782
M. M. Neubauer	Vice President of Company	1937	178
One associate			84
Adolph Weinberger	President and Treasurer of Company	1928	20,416 (1)
Three associates			7,463 (2)
L. J. Wolf	Retired	1930	18
One associate			183
C. W. Evans	Vice President and Secretary of Company	Officer only	100
One associate			350
Henry Gray	Vice President of Company	Officer only	761
Joseph Valins	Assistant Secretary of Company	Officer only	None
One associate			20

(1) Mr. Weinberger's holdings represent approximately 21% of the Company's outstanding Common Stock.

(2) The holdings of Mr. Weinberger's associates include 4,890 shares owned by his wife, Mrs. Minnie Weinberger.

With the exception of Joseph Valins, all the persons named in the above table are nominees for election or re-election as directors of the Company. The other nominee for election as a director is C. B. Merrill, who has no present connection with the Company. The Company is advised that as of July 31, 1945, and exclusive of associates' holdings, if any, Mr. Merrill did not own beneficially any of the securities of the Company.

All of the information set forth above regarding ownership of the Common Stock of the Company is based on advice received from the respective directors, officers and nominees and from the Transfer Agent of the Company.

INTERESTS OF MANAGEMENT AND ASSOCIATES

It is presently expected that Merrill, Turben & Co., of Cleveland, Ohio, will head the underwriting group in connection with the proposed financing program described elsewhere in this proxy statement. As already indicated, Mr. C. B. Merrill, who is a nominee for election as a new director of the Company, is President, a stockholder and a director of Merrill, Turben & Co.

As hereinabove indicated with reference to the proposal to increase the authorized Common Stock of the Company, part of such stock may at some future date be sold to employees of the Company. In such event, it is probable that most of the present officers who are still with the Company at that time will be afforded an opportunity to purchase such shares.

Except as just indicated, and except for the holdings of Common Stock of the Company reported above, the Company is not advised of any substantial interest, direct or indirect, of any director or officer of the Company or any associate of any such person in any matter to be acted upon pursuant to the enclosed proxy.

GENERAL

Solicitation of Proxies. The enclosed proxy is being solicited by the management of the Company, and the entire cost of solicitation will be paid by the Company.

Revocation of Proxies. You may revoke your proxy but unless you provide otherwise in such proxy you may revoke only by giving notice to the Company in writing or in open meeting before any vote is taken or thereafter with the consent of the inspectors of election. A subsequent proxy will be deemed to constitute a revocation of any earlier proxy.

Cumulative Voting. The Regulations of the Company provide that shareholders shall have cumulative voting rights in the election of directors, provided they give notice in writing to the President or a Vice President of the Company, not less than 24 hours before the time fixed for the holding of the annual meeting, that they intend to cumulate their votes at such election, and an announcement of the giving of such notice is made upon the convening of the meeting.

Other matters. The annual report of the Company for the fiscal year ended June 30, 1945 is enclosed herewith. In addition, certain financial statements of the Company and its subsidiaries, examined by Messrs. Ernst & Ernst, certified public accountants, are attached hereto. Certain other financial statements of the Company and its subsidiaries are on file at the office of the Securities and Exchange Commission, Philadelphia, Pennsylvania, and at the office of the Cleveland Stock Exchange, Union Commerce Building, Cleveland, Ohio.

Financial and other reports will be submitted at the meeting and minutes of previous meetings of shareholders and directors will be made available for inspection by shareholders present at the meeting but it is not intended that any action will be taken in respect thereof. It is not anticipated that any matters other than the election of directors (including fixing the number thereof) and the proposed amendments of the Articles will be brought before the meeting for action, but if any such other matters should be brought before the meeting it is intended that the persons appointed as proxies may vote or act thereon according to their judgment.

GRAY DRUG STORES, INC.
By C. W. EVANS, *Secretary*

Cleveland, Ohio
September 6, 1945

CONSOLIDATED BALANCE SHEET

GRAY DRUG STORES, INC.
(name changed August 13, 1945, from Weinberger Drug Stores, Inc.)
AND SUBSIDIARIES

June 30, 1945

ASSETS

Current Assets			
Cash on hand and demand deposits (includes time deposits of $22,388.13)			$ 664,519.66
Accounts receivable—trade			38,938.71
Accrued interest receivable on United States Treasury Bonds			875.00
Tax stamps—state			39,544.45
Merchandise inventories—Note A:			
At stores		$1,172,104.57	
At warehouses		872,775.23	
At laboratory		25,701.51	
In transit		116,088.64	2,186,669.95
Postwar refund of excess profits taxes—estimated			14,539.06
Total Current Assets			$2,945,086.83
Other Assets			
United States Treasury Bonds—at cost—Note B		$ 154,500.00	
Cash surrender value of life insurance		73,136.95	
Miscellaneous receivables, deposits, etc.		17,215.35	
Other investments—at cost (no quoted market prices available)		1,815.00	
Claims against closed banks, etc.	$ 2,577.86		
Less reserve	2,577.86	—o—	246,667.30
Fixed Assets—at cost less reserves for depreciation and amortization			
Land		$ 46,091.10	
Buildings and building equipment	$ 45,825.51		
Furniture and fixtures, etc.	948,768.08		
Leasehold and leasehold improvements	370,660.61		
	$1,365,254.20		
Less reserves for depreciation and amortization	782,996.30	582,257.90	628,349.00
Intangible Assets			
Patents and trade-marks			1.00
Deferred Charges			
Prepaid insurance		$ 27,271.83	
Deferred taxes		31,714.60	
Other		8,294.07	67,280.50
			$3,887,384.63

CONSOLIDATED BALANCE SHEET

GRAY DRUG STORES, INC.

(name changed August 13, 1945, from Weinberger Drug Stores, Inc.)

AND SUBSIDIARIES

June 30, 1945

LIABILITIES, CAPITAL SHARES, AND SURPLUS

Current Liabilities		
Note payable to bank—payments maturing prior to June 30, 1946		$ 35,000.00
Accounts payable—trade		543,087.60
Salaries, wages, and commissions		34,820.09
Pay roll and withholding taxes		54,329.75
Liability for employees war bond deductions		7,587.40
Accrued rent and interest		39,493.08
Accrued taxes, other than taxes on income		106,774.54
Federal and state taxes on income—estimated	$ 597,929.69	
Less United States Treasury Notes—Tax Series (purchased and held for tax payments)	1,000.00	596,929.69
Total Current Liabilities		$1,418,022.15
Long-Term Debt		
Note payable to bank, payable in monthly installments of $5,000.00 each, beginning December 9, 1945—Note C	$ 570,000.00	
Less amounts required to be paid within one year, classified as current	35,000.00	
	$ 535,000.00	
Notes payable to others—maturing April 9, 1950—Note B	150,000.00	685,000.00
Reserve		
For postwar adjustments and general contingencies—Note D		124,000.00
Capital Shares and Surplus		
Capital shares:		
Authorized 100,000 shares—without par value		
Outstanding 98,500 shares		
Stated capital	$ 682,170.00	
Surplus—see statement:		
Capital surplus	$ 256,647.07	
Earned surplus	721,545.41	978,192.48	1,660,362.48
		$3,887,384.63

See principles of consolidation and notes on following pages.

PRINCIPLES OF CONSOLIDATION AND NOTES TO BALANCE SHEETS

GRAY DRUG STORES, INC.

(name changed August 13, 1945, from Weinberger Drug Stores, Inc.)

AND SUBSIDIARIES

June 30, 1945

PRINCIPLES OF CONSOLIDATION

(1) The consolidated statements include the accounts of the parent Company and all of its subsidiaries. As of March 31, 1945, the parent Company acquired the outstanding capital stock of Gray Drug Stores, Inc. of Columbus (name changed August 13, 1945 from Gray Drug Stores, Inc., formerly The Mykrantz and Sons Drug Company), and the accounts of that company are included since that date. On June 12, 1945, the parent Company acquired the outstanding capital stock of Gray Drug Stores, Inc. of Pennsylvania (name changed August 30, 1945, from Widmann & Teah, Inc.), and the accounts of that company and its only subsidiary are included in the consolidated balance sheet at June 30, 1945. It is impracticable to determine the amount of net profit of this company and its subsidiary for the period from June 12, 1945 to June 30, 1945; therefore, the consolidated profit and loss statement does not include the accounts of Gray Drug Stores, Inc. of Pennsylvania and its subsidiary. Except for the foregoing, the accounts of the same companies were included in the consolidated statements for the period of three years ended June 30, 1945.

(2) The parent Company's equity in net assets of the subsidiaries at June 30, 1945, was $28,240.12 more than the amount stated for such investments in its balance sheet at that date. This excess represents accumulated undistributed earnings of the subsidiaries, since dates of acquisition (see item (1)), and the amount of $28,240.12 was added to earned surplus upon consolidation.

(3) Estimated inter-company profits have been eliminated from inventories.

NOTES

Note A—Inventories were priced generally on the basis of the lower of cost (latest cost) or replacement market. Inter-company profits have been eliminated.

Note B—The United States Treasury Bonds have been deposited with an escrow agent as collateral security for the notes payable to others of $150,000.00.

Note C—The loan agreement relating to note payable to bank provides, among other things, that the Company will (1) maintain consolidated net current assets of not less than $1,000,000.00 and (2) not declare or pay dividends, or make any other distribution upon any of its shares of stock outstanding at any time, if upon such action being taken the aggregate amount of such dividends and distributions, after June 30, 1944, exceeds the consolidated net earnings after June 30, 1944.

Note D—The reserve of $124,000.00 for postwar adjustments and general contingencies was provided by charges to profit and loss over a period of years, and is available for adjustments which may arise as a result of the termination of the war, and for general contingencies.

Note E—The management of the Company has no knowledge of any contingent liabilities other than pending claims for personal injuries as to which, considering the nature of such claims and the amounts involved, the proceedings will not, in the opinion of the management of the Company, result in any losses of material amounts to the Company and its subsidiaries.

CONSOLIDATED PROFIT AND LOSS STATEMENT

GRAY DRUG STORES, INC.

(name changed August 13, 1945, from Weinberger Drug Stores, Inc.)

AND SUBSIDIARIES

	Year Ended June 30,		
	1943	1944	1945
Net sales	$9,135,762.72	$9,469,467.43	$10,003,588.49
Cost of goods sold—Notes A, B, C, and D:			
Inventories at beginning of period	$1,656,440.75	$1,726,587.10	$ 1,427,271.26
Purchases, labor, and manufacturing expenses (includes $106,242.96 representing inventory of subsidiary at date of acquisition during 1945)	6,280,011.56	6,141,944.82	6,950,871.28
	$7,936,452.31	$7,868,531.92	$8,378,142.54
Inventories at end of period	1,726,587.10	1,427,271.26	1,570,334.40
	$6,209,865.21	$6,441,260.66	$6,807,808.14
Gross Profit	$2,925,897.51	$3,028,206.77	$3,195,780.35
Selling, general, and administrative expenses—Notes B, C, and D	2,355,917.13	2,521,265.34	2,753,065.78
Operating Profit	$ 569,980.38	$ 506,941.43	$ 442,714.57
Other income:			
Income from leasehold	$ —o—	$ —o—	$ 29,962.97
Revenue from telephones, etc.	11,534.64	10,126.15	15,979.74
Credit-charge* on disposal and abandonment of equipment and fixtures—net	3,022.67*	2,155.52	4,279.37
Interest earned	219.67	615.38	1,262.31
Miscellaneous	—o—	481.37	1,343.17
	$ 8,731,64	$ 13,378.42	$ 52,827.56
	$ 578,712.02	$ 520,319.85	$ 495,542.13
Other deductions:			
Provision for postwar adjustments and general contingencies—Note E	$ 10,000.00	$ 12,000.00	$ 12,000.00
Expenses in connection with leases on abandoned locations	11,434.33	—o—	—o—
Interest expense—funded debt	6,462.05	3,217.86	2,748.98
Interest expense—other	2,056.83	8.13	330.84
Charges in connection with fire loss	7,111.37	—o—	—o—
Burglary and robbery loss—net	2,381.12	—o—	—o—
	$ 39,445.70	$ 15,225.99	$ 15,079.82
Profit Before Provision for Taxes on Income	$ 539,266.32	$ 505,093.86	$ 480,462.31
Taxes on income—estimated:			
Provision for the period:			
Federal normal income tax and surtax	$ 83,500.00	$ 87,600.00	$ 88,570.00
Federal excess profits tax (after credit of $30,000.00 in 1943 and $28,500.00 in 1944 for debt retirement; and postwar refund of $50.00 in 1944)	270,000.00	256,950.00	242,000.00
	$ 353,500.00	$ 344,550.00	$ 330,570.00
Adjustments for prior periods	1,870.60	266.20	13,514.89*
Total Taxes on Income	$ 355,370.60	$ 344,816.20	$ 317,055.11
Net Profit	$ 183,895.72	$ 160,277.66	$ 163,407.20

* Indicates red figures.

See principles of consolidation and notes on following page.

PRINCIPLES OF CONSOLIDATION

AND NOTES TO

CONSOLIDATED PROFIT AND LOSS STATEMENT

GRAY DRUG STORES, INC.

(name changed August 13, 1945, from Weinberger Drug Stores, Inc.)

AND SUBSIDIARIES

For the period of three years ended June 30, 1945

PRINCIPLES OF CONSOLIDATION

(1) See "Principles of Consolidation" accompanying the consolidated balance sheet relative to inclusion and exclusion of accounts of subsidiaries during the period.

(2) Inter-company sales have been eliminated.

(3) Inter-company profits have been eliminated except for amounts (not considered significant) included in inventories at June 30, 1942, and at June 30, 1943.

NOTES

Note A—Inventories used in the computation of cost of goods sold were priced generally on the basis of the lower of cost (latest cost) or replacement market. See item (3) of principles of consolidation above.

Note B—Depreciation, retirements, etc.:

Provisions for depreciation of furniture and fixtures, etc., and amortization of leasehold and leasehold improvements during the period were based upon rates expected to extinguish the amounts at which assets (subject to depreciation or amortization) were carried, over their estimated remaining lives. The rates applied to the gross amount stated for the various classes of assets were as follows:

	Per Annum
Furniture and fixtures:	
Stores	10 %
Office, warehouse, and laboratory	6⅔%
Soda fountain	12 %
Automobiles	33⅓%
Leasehold and leasehold improvements	Applicable amount based on life of lease

Maintenance, repairs, and renewals are charged to operating expenses whereas betterments are capitalized and added to property accounts. The general policy of the companies is to relieve the property accounts and related reserves for properties retired or otherwise disposed of at amounts included in those accounts.

Note C—Reference is made to the accompanying statement of "Supplementary Profit and Loss Information" relative to charges for maintenance and repairs, depreciation and amortization, taxes (other than income and excess profits taxes), and rents.

Note D—The Company has no formal bonus or profit-sharing plan; however, it has been the practice of the Company, for a number of years, to pay additional compensation to certain officers and employees. The aggregate amounts of such additional compensation for the period covered by the profit and loss statement follows:

	Paid to	
	Employees	Officers and Directors
Year ended June 30, 1943	$ 92,282.45	$6,000.00
Year ended June 30, 1944	103,325.84	6,000.00
Year ended June 30, 1945	100,585.48	6,500.00

Note E—Reference is made to Note D to the balance sheets relative to provisions for reserve for postwar adjustments and general contingencies.

CONSOLIDATED STATEMENT OF SURPLUS

GRAY DRUG STORES, INC.
(name changed August 13, 1945, from Weinberger Drug Stores, Inc.)
AND SUBSIDIARIES

	Year Ended June 30,		
	1943	1944	1945
Capital Surplus			
Balance at beginning of period	$135,815.44	$135,815.44	$ 135,815.44
Excess of value assigned to 8,500 shares of capital stock, issued as partial payment for the outstanding capital stock of Widmann & Teah, Inc., over amount of $5.00 per share assigned to stated capital	—o—	—o—	120,831.63
Balance at end of period	$135,815.44	$135,815.44	$ 256,647.07
Earned Surplus			
Balance at beginning of period	$689,243.40	$828,132.04	$ 920,906.26
Net profit for the period	183,895.72	160,277.66	163,407.20
	$873,139.12	$988,409.70	$1,084,313.46
Deduct:			
Cash dividends:			
$ .50 per share	$ 45,007.08		
.75 per share		$ 67,503.44	
1.00 per share			$ 90,000.00A
Reduction in carrying amounts of investments in subsidiaries, acquired during the year, to equity in net tangible assets shown by accounts of subsidiaries at dates of acquisition	—o—	—o—	272,768.05
	$ 45,007.08	$ 67,503.44	$ 362,768.05
Balance at end of period	$828,132.04	$920,906.26	$ 721,545.41

Note A—Cash dividend of $.25 per share was declared on stock of record at June 20, 1945, payable July 2, 1945. Prior to June 30, 1945, the Company deposited funds with the dividend disbursing agent for payment of such dividend.

SUPPLEMENTARY PROFIT AND LOSS INFORMATION

GRAY DRUG STORES, INC.

(name changed August 13, 1945, from Weinberger Drug Stores, Inc.)

AND SUBSIDIARIES

Col. A	Col. B		Col. C		Col. D
	Charged directly to profit and loss		Charged to other accounts		
Item	(1) To costs or operating expenses	(2) Other	(1) Account	(2) Amount	Total
Year Ended June 30, 1943					
Maintenance and repairs	$ —o—	$ 77,369.19		$ —o—	$ 77,369.19
Depreciation and amortization	183.34	104,120.51		—o—	104,303.85
Taxes (other than income and excess profits taxes):					
Social security	$ 301.63	$ 29,411.74		$ —o—	$ 29,713.37
Personal and real property	434.19	27,794.84		—o—	28,229.03
Corporate taxes	—o—	70.78		—o—	70.78
Federal capital stock	—o—	8,425.00		—o—	8,425.00
Miscellaneous state and federal—Note A	252,910.19	4,967.33		—o—	257,877.52
Total Taxes	$253,646.01	$ 70,669.69		$ —o—	$324,315.70
Management and service contract fees	—o—	—o—		—o—	—o—
Rents—Note B	3,000.00	307,186.07		—o—	310,186.07
Royalties	—o—	—o—		—o—	—o—
Year Ended June 30, 1944					
Maintenance and repairs	$ —o—	$ 81,223.35		$ —o—	$ 81,223.35
Depreciation and amortization	189.01	87,093.08		—o—	87,282.09
Taxes (other than income and excess profits taxes):					
Social security	$ 322.91	$ 32,275.99		$ —o—	$ 32,598.90
Personal and real property	482.82	31,291.68		—o—	31,774.50
Corporate taxes	—o—	1,627.17		—o—	1,627.17
Federal capital stock	—o—	7,093.75		—o—	7,093.75
Miscellaneous state and federal—Note A	269,252.79	4,372.25		—o—	273,625.04
Total Taxes	$270,058.52	$ 76,660.84		$ —o—	$346,719.36
Management and service contract fees	—o—	—o—		—o—	—o—
Rents—Note B	1,800.00	328,589.80		—o—	330,389.80
Royalties	—o—	—o—		—o—	—o—
Year Ended June 30, 1945					
Maintenance and repairs	$ —o—	$ 75,274.63		$ —o—	$ 75,274.63
Depreciation and amortization	214.61	86,141.84		—o—	86,356.45
Taxes (other than income and excess profits taxes):					
Social security	$ 385.95	$ 37,092.97		$ —o—	$ 37,478.92
Personal and real property	520.78	45,146.59		—o—	45,667.37
Corporate taxes	—o—	1,776.64		—o—	1,776.64
Federal capital stock	—o—	8,250.00		—o—	8,250.00
Miscellaneous state and federal—Note A	233,477.88	5,040.96		—o—	238,518.84
Total Taxes	$234,384.61	$ 97,307.16		$ —o—	$331,691.77
Management and service contract fees	—o—	—o—		—o—	—o—
Rents—Note B	1,800.00	357,658.77		—o—	359,458.77
Royalties	—o—	—o—		—o—	—o—

Note A—Taxes as stated herein include the following amounts for state cigarette taxes which are recovered from customers:

Year ended June 30, 1943	$252,910.19
Year ended June 30, 1944	269,252.79
Year ended June 30, 1945	233,477.88

Note B—At June 30, 1945, the companies were lessees under a number of leases of which 38 expire at various dates from August 31, 1948, to March 31, 1954. The aggregate annual minimum rental (many of such leases provide for additional rental if amounts based on specific percentage of sales exceed the minimum) payable under such 38 leases for the fiscal year ending June 30, 1946, amounts to approximately $200,000.00. The foregoing includes information relative to Gray Drug Stores, Inc. of Pennsylvania and its subsidiary. The operating accounts of these companies are not included herein. See item (1) of principles of consolidation to balance sheets.

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BALANCE SHEET

GRAY DRUG STORES, INC.

(name changed August 13, 1945, from Weinberger Drug Stores, Inc.)

June 30, 1945

ASSETS

Current Assets			
Cash on hand and demand deposits			$ 385,623.77
Accounts receivable:			
Trade		$ 33,136.54	
Subsidiaries consolidated		78,088.96	111,225.50
Accrued interest receivable on United States Treasury Bonds			875.00
Tax stamps—state			31,772.71
Merchandise inventories—Note A:			
At stores	$ 744,130.38		
At warehouse	718,038.62	$1,462,169.00	
In transit		86,726.13	1,548,895.13
Total Current Assets			$2,078,392.11
Investments and Other Assets			
Securities of consolidated subsidiaries—see principles of consolidation to balance sheets		$ 888,856.95	
United States Treasury Bonds—at cost—Note B		154,500.00	
Cash surrender value of life insurance		60,294.35	
Miscellaneous receivables, deposits, etc.		8,389.49	
Other investments—at cost (no quoted market prices available)		1,815.00	
Claims against closed banks, etc.	$ 2,577.86		
Less reserve	2,577.86	—o—	1,113,855.79
Fixed Assets—at cost less reserves for depreciation and amortization			
Land		$ 21,091.10	
Furniture and fixtures, etc.	$ 712,728.47		
Leasehold and leasehold improvements	358,460.79		
	$1,071,189.26		
Less reserves for depreciation and amortization	661,033.10	410,156.16	431,247.26
Intangible Assets			
Patents and trade-marks			1.00
Deferred Charges			
Prepaid insurance		$ 20,503.30	
Deferred taxes		28,682.04	
Other		7,666.67	56,852.01
			$3,680,348.17

BALANCE SHEET

GRAY DRUG STORES, INC.

(name changed August 13, 1945, from Weinberger Drug Stores, Inc.)

June 30, 1945

LIABILITIES, CAPITAL SHARES, AND SURPLUS

Current Liabilities			
Notes payable:			
To bank—payments maturing prior to June 30, 1946		$ 35,000.00	
To consolidated subsidiaries (includes accrued interest of $277.78)		250,277.78	$ 285,277.78
Accounts payable—trade			428,812.81
Salaries, wages, and commissions			26,534.61
Pay roll and withholding taxes			41,636.16
Liability for employees war bond deductions			7,587.40
Accrued rent and interest			37,600.73
Accrued taxes, other than taxes on income			87,776.32
Federal taxes on income—estimated		$ 325,000.00	
Less United States Treasury Notes—Tax Series (purchased and held for tax payments)		1,000.00	324,000.00
Total Current Liabilities			$1,239,225.81
Long-Term Debt			
Note payable to bank, payable in monthly installments of $5,000.00 each, beginning December 9, 1945—Note C		$ 570,000.00	
Less amounts required to be paid within one year, classified as current		35,000.00	
		$ 535,000.00	
Notes payable to others—maturing April 9, 1950—Note B		150,000.00	685,000.00
Reserve			
For postwar adjustments and general contingencies—Note D			124,000.00
Capital Shares and Surplus			
Capital shares:			
Authorized 100,000 shares—without par value			
Outstanding 98,500 shares			
Stated capital		$ 682,170.00	
Surplus—see statement:			
Capital surplus	$ 256,647.07		
Earned surplus	693,305.29	949,952.36	1,632,122.36
			$3,680,348.17

See consolidated balance sheet for reference to principles of consolidation and notes.

STATEMENT OF SURPLUS

GRAY DRUG STORES, INC.

(name changed August 13, 1945, from Weinberger Drug Stores, Inc.)

	Year Ended June 30,		
	1943	1944	1945
Capital Surplus			
Balance at beginning of period	$135,815.44	$135,815.44	$ 135,815.44
Excess of value assigned to 8,500 shares of capital stock, issued as partial payment for the outstanding capital stock of Widmann & Teah, Inc., over amount of $5.00 per share assigned to stated capital	—o—	—o—	120,831.63
Balance at end of period	$135,815.44	$135,815.44	$ 256,647.07
Earned Surplus			
Balance at beginning of period	$675,520.12	$819,717.25	$ 907,643.01
Net profit for the period	189,204.21	155,429.20	148,430.33
	$864,724.33	$975,146.45	$1,056,073.34
Deduct:			
Cash dividends:			
$ .50 per share	$ 45,007.08		
.75 per share		$ 67,503.44	
1.00 per share			$ 90,000.00A
Reduction in carrying amounts of investments in subsidiaries, acquired during the year, to equity in net tangible assets shown by accounts of subsidiaries at dates of acquisition	—o—	—o—	272,768.05
	$ 45,007.08	$ 67,503.44	$ 362,768.05
Balance at end of period	$819,717.25	$907,643.01	$ 693,305.29

Note A—Cash dividend of $.25 per share was declared on stock of record at June 20, 1945, payable July 2, 1945. Prior to June 30, 1945, the Company deposited funds with the dividend disbursing agent for payment of such dividend.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

Board of Directors,
Gray Drug Stores, Inc.,
Cleveland, Ohio.

We have examined the balance sheet of Gray Drug Stores, Inc. (name changed August 13, 1945 from Weinberger Drug Stores, Inc.) as of June 30, 1945, and the consolidated balance sheet of the Company and its subsidiaries as of the same date, and have examined the statement of surplus of the Company and the consolidated statements of profit and loss and surplus, and schedule of supplementary profit and loss information of the Company and its subsidiaries for the period of three years then ended. In connection with our examination, we reviewed the systems of internal control and the accounting procedures of the companies and, without making a detailed audit of the transactions, have examined or tested accounting records of the companies and other supporting evidence, by methods and to the extent we deemed appropriate. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all procedures which we considered necessary.

In our opinion, the accompanying balance sheets and related statements of profit and loss and surplus and schedule of supplementary profit and loss information present fairly the position of the companies at June 30, 1945, and the results of their operations for the period of three years then ended, in conformity with generally accepted accounting principles applied on a consistent basis during the period under review.

ERNST & ERNST
Certified Public Accountants

Cleveland, Ohio
September 5, 1945